

Management Information Report
Effectiveness of RRB Procedures for Paying
RRB Benefits by Direct Deposit
Report No. 00-03, February 9, 2000

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). During fiscal year 1999, the RRB paid \$8.2 billion in retirement-survivor benefits to about 748,000 beneficiaries, while net unemployment-sickness benefits of \$69 million were paid to about 34,000 claimants.

The Federal Financial Management Act of 1994, as amended by the Debt Collection Improvement Act of 1996, required that payments made by Federal agencies, except for payments under the Internal Revenue Code of 1986, shall be made electronically (by direct deposit) after January 1, 1999. However, subsequent regulations essentially gave beneficiaries the option of receiving their benefits by either direct deposit or by check.

The following paragraphs reflect the transition of direct deposit from being mandatory to effectively being voluntary.

-- April 26, 1996 - The Secretary of the Treasury was given authority to waive the direct deposit requirement under the following circumstances: a) for individuals for whom compliance imposes a hardship; b) for classifications or types of checks; or c) in other circumstances as may be necessary.

-- July 26, 1996 - Department of the Treasury (Treasury) temporary regulations provided that RRB beneficiaries who filed for benefits on or after this date must receive their benefit payments through direct deposit. However, these regulations provided that the head of a Federal agency could waive the direct deposit requirement for beneficiaries who submitted written certification that they did not have a bank account.

-- September 25, 1998 - Treasury issued final regulations stating that, effective January 2, 1999, all Federal payments made by an agency shall be made by direct deposit. However, the details of these regulations provided that direct deposit was not required and was automatically waived for all beneficiaries who did not have bank accounts at financial institutions. The regulations provided, in addition to other exceptions, that beneficiaries could determine, at their sole discretion, that payment by direct deposit would impose a hardship due to a physical or mental disability or a geographic, language, or literacy barrier, or would impose a financial hardship. The regulations provided that an agency could not require an individual to provide evidence of a hardship, nor could an agency

question an individual's determination and election of a waiver.

Objective, Scope and Methodology

The objective of this audit was to determine if the RRB complied with requirements to pay RRA and RUIA benefits electronically. To accomplish the objective, the OIG focused on Federal requirements and how the RRB promoted the direct deposit program. Specifically, the OIG:

- reviewed regulations and procedures governing the direct deposit program;
- interviewed program personnel;
- documented RRB procedures and actions to enforce requirements for direct deposit;
- gathered information through the Internet on how the RRB compared with other Federal agencies with respect to paying benefits by direct deposit; and
- gathered statistics on the number of RRB beneficiaries being paid by direct deposit.

Auditors performed fieldwork at the RRB headquarters office in Chicago, Illinois from November 1999 through January 2000.

Results of Review

The RRB established procedures and effectively promoted direct deposit as the preferred method of paying RRA and RUIA beneficiaries. Participation by RRB beneficiaries in the direct deposit program had increased to 76 percent as of November 30, 1999.

The RRB established procedures to comply with the changing Treasury regulations. The RRB stated that direct deposit would be the required method of payment for beneficiaries who applied for benefits on or after July 26, 1996. The only exception was for beneficiaries who certified in writing that they did not have bank accounts at financial institutions. The RRB withheld benefit payments when applicants failed or refused to furnish direct deposit information or certify that they did not have bank accounts.

The RRB changed its procedures to comply with the final Treasury regulations and discontinued withholding benefits when direct deposit information was not provided. Instead, the RRB promoted the direct deposit program by encouraging beneficiaries to receive benefits via direct deposit. The RRB issued press releases, held informational conferences with railroad employees and required field office personnel to promote direct deposit.

The RRB currently has roughly the same percentage of beneficiaries receiving benefits via direct deposit as the Social Security Administration (SSA) and the Department of

Veterans Affairs (VA). The following table presents direct deposit statistics for those agencies as of the end of fiscal years 1995 through 1999.

Agency	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
SSA	58	61	65	71	76
VA	47	52	60	67	77
RRB	56	58	64	70	75

In addition, the RRB has shown steady progress in reducing the number of checks issued and increasing participation in the direct deposit program. The following chart reflects the RRB's success in promoting direct deposit. The figures represent the percentage of annuitants receiving benefits through direct deposit.

Program	July 1997	July 1998	June 1999
RRA	64.18%	70.18%	74.87%
RUJA	84.02%	85.88%	85.01%

The Federal government promoted direct deposit for a variety of reasons. The primary reason was that direct deposit saves the government money. The Treasury estimated that direct deposit would save the Federal government approximately \$100 million annually in processing costs. A significant portion of the savings can be attributed to the fact that the cost to the RRB of issuing an electronic payment is only \$.04 compared with \$.45 for issuing a Treasury check.

In complying with current Treasury regulations, the RRB established effective procedures for promoting and encouraging direct deposit. During fiscal year 1999, the RRB made 6,897,507 benefit payments by direct deposit. At a savings of \$.41 each, compared to the cost of issuing checks, the RRB saved approximately \$2.8 million as a result of the direct deposit program.